MTS

ANNUAL REPORT 2000

connected to our **market... future... new opportunities...**

MISSION

Our Goal: **We will continue to diversify and grow our business, delivering innovative communications, e-business and media solutions with exceptional value to our customers in Manitoba and beyond.**

annual report 2000

MANITOBA TELECOM SERVICES INC.

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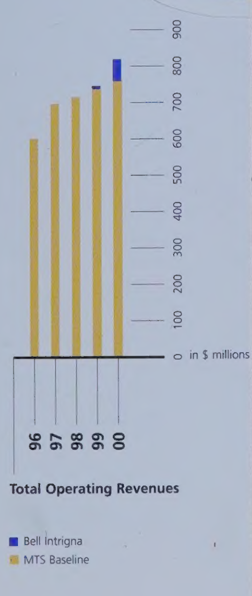

Total Operating Revenues

MISSION

Our Goal: **We will continue to diversify and grow our business, delivering innovative communications, e-business and media solutions with exceptional value to our customers in Manitoba and beyond.**

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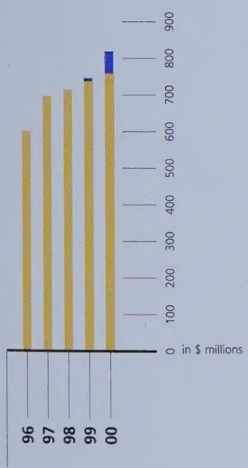
FINANCIAL HIGHLIGHTS

Years ended December 31
(in $ millions)

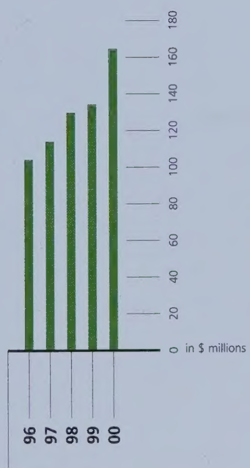
	2000	1999	% change
Revenues	**822.2**	741.9	10.8%
EBITDA	**360.9**	324.8	11.1%
Baseline EBITDA	**385.7**	335.1	15.1%
Net income	**100.5**	93.9	7.0%
Baseline net income	**113.0**	100.3	12.7%

Per share information

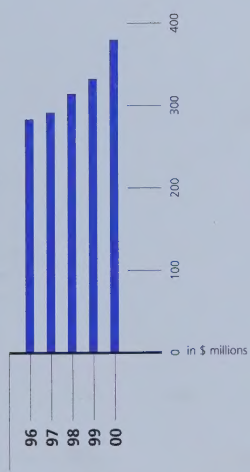
	2000	1999	% change
EPS	**$ 1.55**	$ 1.34	15.7%
Baseline EPS	**$ 1.74**	$ 1.43	21.7%



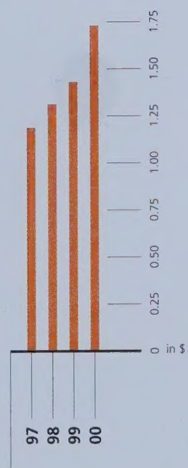
Total Operating Revenues



Operating Income



Baseline EBITDA



Baseline EPS

Bell Intrigna
MTS Baseline

Manitoba Telecom Services Inc. ("MTS") is Western Canada's leading regional provider of communications services. In Manitoba, MTS is the province's only full-service provider of local, long distance, wireless, directory, Internet, e-commerce and online multimedia telecommunications services. Services are delivered over world-class, fibre optics based, digital networks. Through its majority-owned subsidiary, Bell Intrigna Inc. ("Bell Intrigna"), leading-edge telecommunications services, including next generation Internet Protocol ("IP") broadband-based offerings, are provided to businesses in Alberta and British Columbia. MTS's common shares are listed on The Toronto Stock Exchange under the trading symbol MBT. MTS's Web site is located at www.mts.mb.ca

MTS Communications Inc.

Local and long distance services
Data and integrated services
Wireless services (cellular/PCS, paging, group communications, wireless data)
Internet services
Telecommunications-related services (provided on a contract basis to telecommunications companies outside Manitoba)

MTS Advanced Inc.

Qunara

e-commerce solutions
e-business solutions
Internet data centre services

Media services

Directory publishing (MTS White Pages and Yellow Pages™, Internet Yellow Pages™)
myWinnipeg.com™ (local Internet portal site)
Content services management (for all MTS companies)

The EXOCOM Group Inc.

Advanced e-business services: information technology ("IT") strategy and design consulting, IT security consulting, application development, technology integration and enterprise infrastructure consulting. Based in Ottawa and operating in Toronto, Halifax and Calgary.

AAA Alarm Systems Ltd.

Residential and business security systems, based in Winnipeg and operating in Manitoba and Alberta

Bell Intrigna Inc. – *66.67% ownership*

Bell Intrigna offers a full suite of telecommunications products and services to businesses in Western Canada and access services for national customers of BCE Nexxia Inc. ("Bell Nexxia") with operations in Alberta and British Columbia. Through a strategic relationship with Bell Nexxia, Bell Intrigna offers a coast-to-coast and international IP network with a variety of business services, including Bell Nexxia's IP Connect Access, IP Virtual Private Network or Extranet, and IP hosting services. It also provides a variety of data network and voice communications services. Bell Intrigna is headquartered in Calgary, with offices in Vancouver and Edmonton.

THOMAS E. STEFANSON *CHAIRMAN*

WILLIAM C. FRASER *PRESIDENT & CEO*

from the chairman and the president & CEO

related link
www.mts.mb.ca

MTS is connected to many things, but our overriding connection is to long-term profitable growth. And in that respect, 2000 was an excellent year. We successfully moved forward with our strategies and delivered very strong financial performance. We also achieved industry-leading share price performance, with a total return to shareholders, including dividends, of 83.3 per cent.

We are extremely proud of what the MTS team accomplished in 2000. We undertook major initiatives that position MTS to benefit from, and succeed in, the online world. Our business in Manitoba has never been stronger, and with our major successes in Alberta and British Columbia, we truly have become the leading regional provider of communications services in Western Canada.

Our ultimate measure of success is reflected in our financial statements. In 2000, revenues climbed by 10.8 per cent to $822.2 million, with $58.1 million in revenues flowing from Bell Intrigna. Our baseline[1] operations achieved earnings per share ("EPS") of $1.74, which was up by 21.7 per cent from 1999. On a consolidated basis, we also realized strong EPS results of $1.55, representing an increase of 15.7 per cent.

[1] Baseline results exclude the impact of Bell Intrigna.

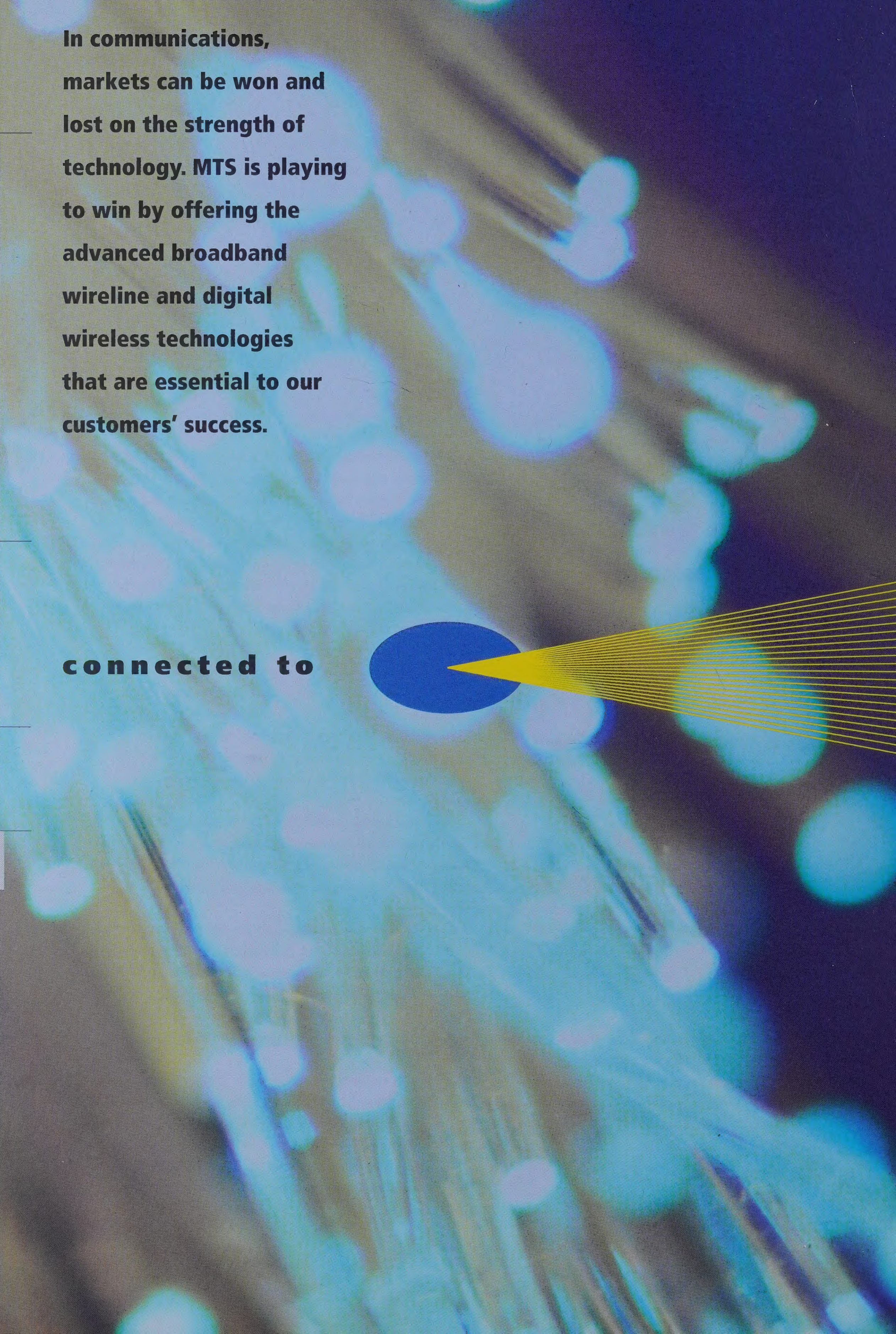
Staying successful means staying connected – to markets, to emerging technologies and new opportunities, to the customers and communities you serve, and to the employees whose skills and commitment drive innovation and provide the expertise and energy essential to growth. In 2000, MTS enhanced these vital connections, delivering strong financial performance and increased shareholder value.

While impressive, these results mask one of our greatest achievements to date: our transition from tax-exempt status to becoming a fully taxable entity in 2001. MTS has employed a balanced strategy involving share buybacks, cash investments, aggressive productivity gains, debt reductions and rate increases. Our effective tax rate has grown from 3 per cent in 1997 to 37.3 per cent in 2000. Over this same time frame, we have delivered a four-year compound annual growth rate on baseline after tax EPS of 12.7 per cent – a real testament to the success of our efforts.

In 2001, we will aggressively move ahead with our fundamental strategies of focusing our business in Manitoba to lead the market, and investing and expanding into complementary lines of business that leverage our strengths. Within this context, we will concentrate on the following key priorities:

- Our online multimedia activities will accelerate considerably as we deploy our next generation network ("NGN") extensively throughout Manitoba, and build on our fast-growing e-business operation, Qunara.
- Bell Intrigna will aggressively pursue growth in Western Canada, expanding its extensive broadband network infrastructure and continuing to win market share in support of its $220 million revenue target for 2001. Together, MTS and Bell Mobility Inc. will begin expansion of wireless services in the West.
- In Manitoba, we will focus on leading the market by offering highly competitive, leading-edge services through such initiatives as NGN and the expansion of our digital wireless network. Activities like these reflect our unrelenting commitment to the core business, which is the foundation of our success.

In communications, markets can be won and lost on the strength of technology. MTS is playing to win by offering the advanced broadband wireline and digital wireless technologies that are essential to our customers' success.



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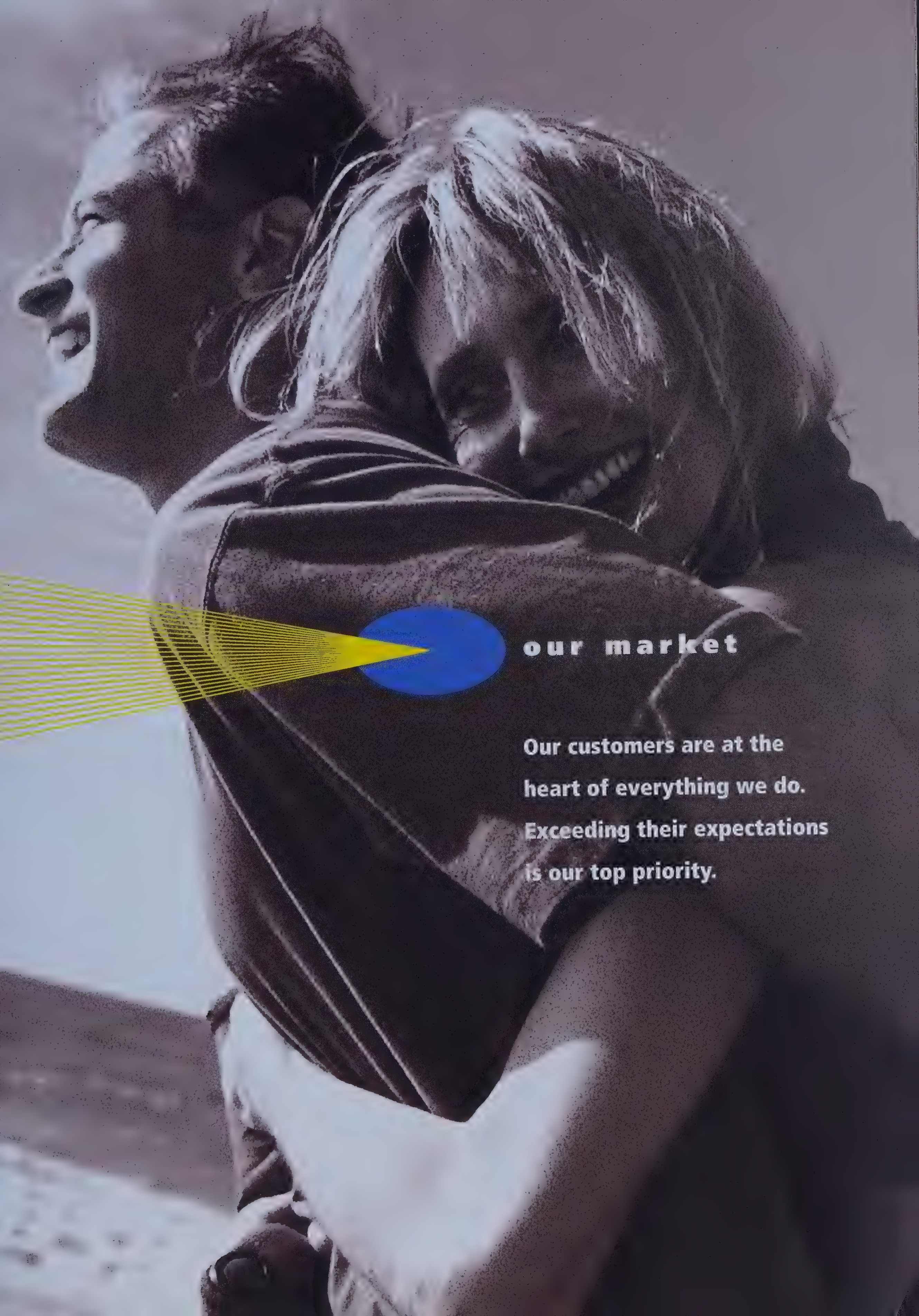


our market

Our customers are at the heart of everything we do. Exceeding their expectations is our top priority.

Don Pohl Field Service Technician, MTS Communications "Our customers depend on the quality and reliability of MTS's network to communicate with anyone – anywhere, instantly."

Lori McGee Sales Consultant, MTS Communications "MTS Connect stores provide our customers with the latest innovations in technology for wireless, wireline, Internet and home, all in one convenient location."

to our market

Building on our tradition of delivering the best value to our customers, we strengthened our position in Manitoba in 2000 and realized high levels of profitability in our baseline operations, where EBITDA increased by 15.1 per cent to $385.7 million, and EPS climbed 21.7 per cent to $1.74.

Quality and breadth of services, price and customer service are all areas where we have taken action. We introduced new pricing in select areas in order to ensure our competitiveness, while continuing to tightly control costs.

As we build out our broadband capabilities in 2001 and beyond, our customers are assured of the most complete and advanced communications solutions available. Today, these include wireline and wireless services, Internet access, e-business solutions and security services.

The industry trend is toward broadband-enabled services, and demand for MTS's high-speed Internet access rose sharply in 2000, increasing by 347 per cent with more than 11,000 customers by year-end. Further growth will occur as we extend this service to additional Manitoba communities in 2001.

MTS led Manitoba's wireless market again in 2000. More than 25,000 new customers were added during the year, bringing the year-end total customer base to 169,140, representing a 68 per cent market share.

We have also improved customer service and made it easier to interact with MTS. We combined our wireless, wireline and Internet access operations, revamped our retail distribution channels and made further enhancements to our customer care and billing systems. Our new MTS Connect™ outlets offer all of MTS's services for the residential and small business markets, providing customers with one-stop shopping. As well, we created a Web-based sales channel, with dedicated staff, to proactively contact – in real time – our best sales prospects as they browse our Web site. We also introduced a combined bill for customers of wireline and wireless services in September.

Success requires price competitiveness and a comprehensive suite of leading-edge, high-quality solutions. Our portfolio of services is broad – and it's growing.

MTS

Qunara™

Bell Intrigna

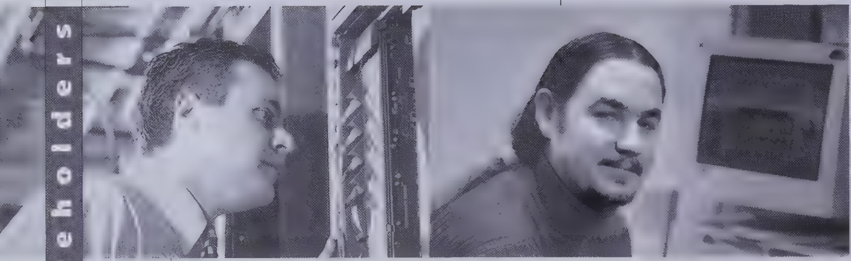
2000 connected to

In September, we announced a major $300 million capital investment to significantly enhance the broadband capabilities of our extensive digital network. This investment will permit the aggressive expansion of high-speed Internet and next generation services to the majority of customers in Manitoba.

our future

We expanded our e-business portfolio and capitalized on the growth of the Internet with the launch of Qunara in October. Qunara e-solutions are flexible and innovative, facilitating complex e-business projects on budget and on time.

Sean Zieroth Media Sales Manager – myWinnipeg.com, MTS Advanced
"MTS is connecting to the future by developing new electronic means of building relationships with its customers on a more personalized level."



Peter Andranistakis Network Architecture Specialist – Next Generation Services, MTS Communications **"MTS's $300 million Next Generation Services initiative is bringing the world to our customers' fingertips by providing 85% of Manitobans with access to high-speed Internet."**

to our future

The communications market is moving quickly from traditional services to a broadband focus that includes the Internet, data and content services – areas where speed counts. Internet access is just the beginning, with video, e-commerce, content and other advanced services of the future pointing to a huge upside. Our NGN initiative will capitalize on the growth opportunities of broadband by leveraging our leadership position in Manitoba. When the project is complete in 2003, we expect to have deployed some 260,000 fibre kilometres of cable, supporting the delivery of high-speed and next generation services across Manitoba.

related links
www.qunara.com
www.exocom.com

MTS has been active in providing Internet-based solutions for businesses since 1997. Building on its expertise in the e-commerce space, MTS officially launched Qunara™ in October. A powerhouse of proven, end-to-end e-business solutions delivering e-commerce, e-business and Internet data centre services, Qunara will continue to build its share of the business market in Canada and the United States.

MTS is building Qunara through organic and acquisition growth, with a revenue target of $100 million in 2005. Consistent with these plans, MTS acquired all of the issued and outstanding common shares of The EXOCOM Group Inc. ("EXOCOM") in a transaction that closed on January 30, 2001. As an advanced e-business services and solutions provider, with a well-established resource and customer base, EXOCOM will significantly add to Qunara's capabilities and portfolio of services.

We also expanded our portfolio of services in the wireless marketplace, with the launch of Lightning Mobile Commerce™ service – a wireless handheld terminal that enables customers to use their credit or debit cards to pay for purchases – and with Mobile Browser™, which provides Internet access through MTS digital PCS phones.

Through our Next Generation initiative, we are setting in place a level of speed, connectivity and coverage unmatched by any of our competitors. This investment profoundly improves MTS's growth potential and competitiveness by expanding and enhancing our service portfolio.

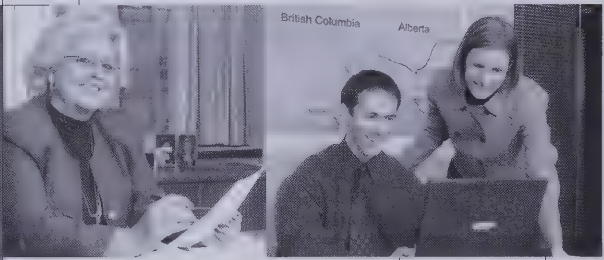
to our shareholders

Murray Korth
President & CEO, Bell Intrigna Inc.

new opportunities

On November 2, the Government of Alberta announced the selection of MTS's majority-owned subsidiary, Bell Intrigna, to spearhead the delivery of its SUPERNET, a $300 million broadband telecommunications project.

Gail White Recruitment Specialist, Bell Intrigna
"Bell Intrigna offers exciting, challenging careers. We are continually seeking out, and attracting, the industry's best and brightest."



Gary Care Senior Business Development Planner, Bell Intrigna "With our core infrastructure firmly in place, we are now extending our network into new areas of Alberta and B.C. This will enable us to further expand our service footprint."

Kendra Kruger Sales Administrator, Bell Intrigna
"Every day, I see Bell Intrigna's commitment to product excellence and customer focus in action. I'm proud to be part of this team."

new opportunities

related link
www.bellintrigna.com

Since its launch in 1999, Bell Intrigna has grown rapidly, built an advanced infrastructure and won more than 900 business customers. This year, the company delivered revenues of $58.1 million and is projecting to increase its revenues to more than $500 million in 2003.

In November, Bell Intrigna solidified its position in Western Canada, when the Government of Alberta ("GOA") announced that Bell Intrigna would lead the deployment of an extensive fibre optics based network. When it is completed in three years, 90 per cent of Albertans will be able to access this broadband network.

As part of this agreement, Bell Intrigna also was awarded a significant portion of the GOA's telecommunications business, valued at a minimum of $169 million over 10 years. Beyond the added revenue, having the GOA as a customer will add to Bell Intrigna's already high level of credibility in the marketplace.

MTS is also pursuing further growth opportunities in the wireless sector. In November, MTS and Bell Mobility submitted an application to participate in Industry Canada's auction for new PCS wireless spectrum. On February 1, 2001, the auction closed. In Manitoba, MTS acquired an additional 10 MHz of spectrum. This spectrum will add capacity to meet the growing demand for wireless services and pave the way for future new wireless services and applications. 30 MHz of additional spectrum were acquired for the Alberta and British Columbia markets, and will facilitate the rollout of wireless services by MTS and Bell Mobility in these two provinces.

From private business to the Government of Alberta's SUPERNET project, westerners are embracing Bell Intrigna's blend of next generation technology, business expertise and customer focus.

Marlene Szarka Clerk – Mobility Activations, MTS Communications "MTS offers cutting edge wireless technology and services, allowing our customers limitless mobility while staying connected to the world."

Jeff Bossuyt Line Cable Technician, MTS Communications "Our customers have peace of mind knowing they are being served by one of the world's most advanced telecommunications companies, based right here in Manitoba."

Janet Deimuth Clerk – Sales Support, MTS Advanced "MTS Yellow Pages continues to introduce new features, both online and in print, making it easier for customers to connect to the products and services they need."

Dennis Wood Network Planner, MTS Communications "MTS has the ability to continually enhance its services to its customers through the ongoing integration of new technology and equipment into its network."

our commitment

Our mission is clear: *We will continue to diversify and grow our business, delivering innovative communications, e-business and media solutions with exceptional value to our customers in Manitoba and beyond.* We believe our business plan sets a clear strategic direction that will build on our momentum.

Our corporate priorities and our strategies for success enable us to be competitive as we focus on continued growth.

The key to this focus is the effort of our employees. We could not be prouder of how they continue to adapt to the challenges inherent in our rapidly changing industry. In 2000, our employees proved themselves skilled, resourceful and dedicated. The majority of employees are shareholders, and that speaks volumes about their confidence in MTS's future.

MTS provides major sponsorships to sports, arts and community programs across Manitoba, and our employees volunteer thousands of hours in support of worthwhile community endeavours. They also donate more than a quarter million dollars to selected charities – which MTS proudly matches, dollar for dollar, as part of its many corporate citizenship initiatives. These initiatives help underline MTS's commitment to the communities it serves.

We look back with pride at the Company's achievements in 2000, and look forward with excitement to our prospects in the coming year and beyond.

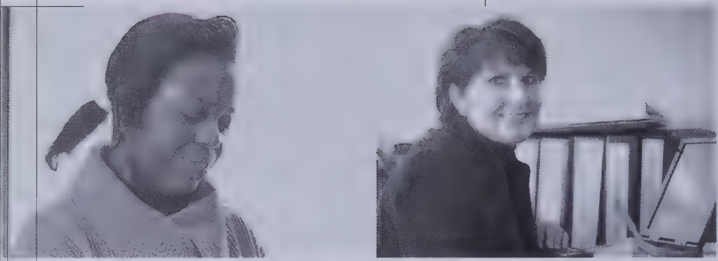
Thomas E. Stefanson
Chairman

William C. Fraser
President & CEO

January 31, 2001

MTS employs a highly skilled, committed and experienced workforce. With a strong customer focus and a proven ability to adapt, our employees play a major role in our continued growth. Together, we look forward to further successes in the year ahead.

Terry Drummond Manager – Benefits and Administration / Finance, Manitoba Telecom Services "MTS offers very competitive benefits, which help us attract and retain excellent employees."



Winsome Hyatt Clerk – Supplier Accounts / Finance, MTS Communications "MTS deals with suppliers from all corners of the world to ensure that the highest quality products and services are always available to our customers."

MD&A / FINANCIAL STATEMENTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements. This report includes forward-looking statements about MTS's corporate direction and financial objectives that are subject to risks and uncertainties. As a consequence, actual results in the future may differ materially from those projected or suggested.

OVERVIEW

MTS is pursuing two fundamental strategies for growth: continued focus on the business in Manitoba to lead the market, and leveraging the Company's core competencies into business adjacencies for growth and expansion. In 2000, MTS delivered excellent financial performance. The Company exceeded every one of its key financial targets, while at the same time, extensively advancing its fundamental strategies for long-term profitable growth.

Bell Intrigna, one of the Company's major growth initiatives, moved forward significantly in 2000. Since its launch in 1999, Bell Intrigna's aggressive execution of its business plan has resulted in the company meeting or exceeding targeted customer wins, infrastructure deployment and, most importantly, financial performance.

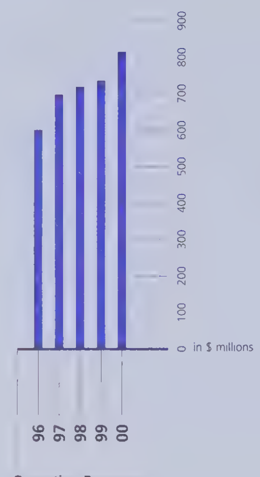
Bell Intrigna achieved major gains in its markets throughout 2000, ending the year with more than 900 customers, representing approximately 5% of the addressable market and $58.1 million in revenues. A major customer win occurred in November, when the Government of Alberta announced that Bell Intrigna had been selected to manage the deployment of a $300 million fibre optics based broadband network throughout Alberta. This agreement will also see the transfer of a significant portion of the Government of Alberta's existing telecommunications business to Bell Intrigna. These service commitments are valued at a minimum of $169 million over 10 years. Bell Intrigna's credibility in the marketplace is expected to be enhanced significantly as a result of being awarded this business by Alberta's largest customer of telecommunications services.

Bell Intrigna also completed its network infrastructure build for 2000 on plan, with capital spending for the year totalling $116.9 million. Its network has been expanded to include 23 co-locations in Calgary, Edmonton, and Vancouver, as well as 13 additional second-tier communities in Alberta and British Columbia. At December 31, 2000, a total of 24,640 kilometres of fibre had been deployed, 63 buildings were connected to the network, with a further 100 signed for connection, and 131,790 network access lines were in service.

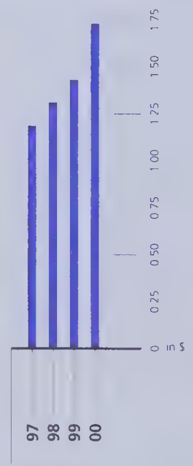
MTS also advanced its strategy of investing in business adjacencies through 2000 in the areas of Internet and e-business opportunities. The Company announced a three-year $300 million capital investment in broadband technology and applications deployment that will expand the breadth and scope of services available to customers in Manitoba. This initiative will enhance the Company's competitive position and also will provide important new revenue streams. MTS also advanced its e-business operations significantly in 2000 with the formal launch of its e-business division Qunara in October. Qunara has been built and evolved from MTS's expertise in the areas of e-commerce and online content development. With offices in Winnipeg, Calgary and Toronto, Qunara services businesses in both Canada and the United States. MTS subsequently added to its e-business capabilities with the acquisition of EXOCOM. EXOCOM is an advanced e-business services and solutions provider with more than 130 employees; offices in Ottawa, Toronto, Halifax and Calgary; and 2000 revenues of approximately $18 million from a well established base of private and public sector customers.

In support of its second strategy, which is to focus and lead the market in Manitoba, MTS revamped its distribution channels with the introduction of its MTS Connect™ retail outlets and

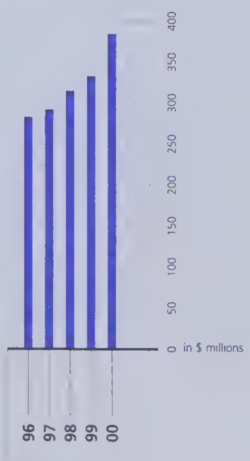
MANAGEMENT'S DISCUSSION AND ANALYSIS



Operating Revenues



Baseline EPS



Baseline EBITDA

Web-based interactive marketing. The Company also invested in customer care and billing enhancements, including the introduction of a single customer bill; streamlined operations with the amalgamation of its wireline, wireless and Internet lines of business into one operating entity; and adjusted pricing, where necessary, to support its market leading value propositions. At the end of 2000, MTS held dominant positions in each of the market segments in Manitoba: 68% in wireless, 80% in long distance, more than 50% in Internet, and 99% in the local services segment.

Key financial indicators

(in millions, except earnings per share)			2000		1999	% change
Operating revenues (3)		$	**822.2**	$	741.9	10.8
Earnings per share	– Consolidated	$	**1.55**	$	1.34	15.7
	– Baseline (2)	$	**1.74**	$	1.43	21.7
Operating income	– Consolidated	$	**165.3**	$	134.7	22.7
	– Baseline (2)	$	**194.8**	$	145.1	34.3
EBITDA (1)(3)	– Consolidated	$	**360.9**	$	324.8	11.1
	– Baseline (2)	$	**385.7**	$	335.1	15.1
Baseline (2) EBITDA Margin (%)			**50.5**		45.3	n/m
Baseline (2) Return on equity (%)			**14.7**		13.3	0.0

(1) Earnings before interest, income taxes, depreciation and amortization.
(2) Baseline results exclude the impact of Bell Intrigna.
(3) Certain 1999 comparative information has been reclassified to conform to 2000 presentation. Operating revenues previously included wireless roaming expense and bad debt expense, which now are classified as operating expenses. In addition, EBITDA no longer includes Other income.

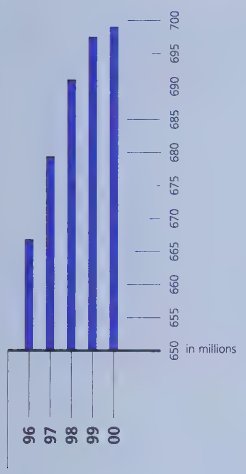
The Company's key financial targets for 2000 focused on growth in revenues, EPS and EBITDA. In each of these areas, MTS delivered strong performance that exceeded each of the respective targets. Operating revenues increased by $80.3 million, or 10.8%, primarily on the strength of the Company's high-growth areas including Bell Intrigna, wireless and Internet services. In the baseline business, which excludes the impact from Bell Intrigna, earnings per share climbed by 21.7% from 1999, which reflected strong revenue growth and continuing expense improvements, as well as the impact from the Company's normal course issuer bid that was completed in the first quarter of 2000. In the baseline business, MTS's focus on profitability translated into a 34.3% increase in operating income and an industry-leading 50.5% baseline EBITDA margin. These results reflect the appropriateness of the Company's strategies, and, in particular, its focus on the core business in Manitoba to drive profitability gains. Through this approach, MTS posted a 15.7% gain in consolidated EPS, while funding its growth initiatives, including Bell Intrigna's start-up costs and the increases in income tax expenses associated with the Company's transition to full taxation.

RESULTS OF OPERATIONS

Operating revenues

Consolidated operating revenues increased by an impressive $80.3 million or 10.8% in 2000. This increase reflects solid performance from the Company's traditional operations, where revenues increased by $8.4 million or 1.4%, together with very strong performance from its high-growth operations, including Bell Intrigna, wireless and Internet. Taken together, these higher-growth operations delivered increased revenues of $71.9 million, representing an increase of 53.3% from a year earlier.

MANAGEMENT'S DISCUSSION AND ANALYSIS



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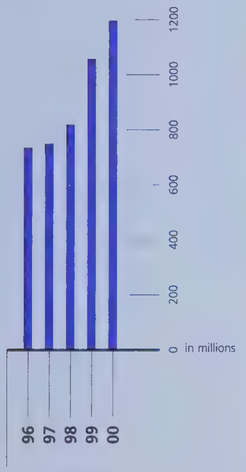
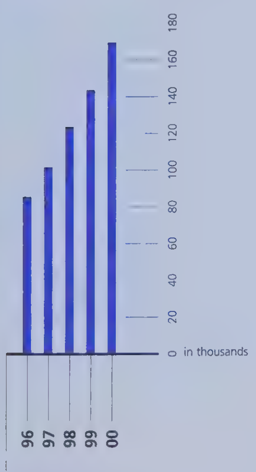


Long Distance Minutes



Cellular Customers

Traditional operations

(in millions)	2000	1999	% change
Local services	$ **360.0**	$ 340.5	5.7
Long distance services	**208.2**	222.0	(6.2)
Directory	**30.9**	30.2	2.3
Miscellaneous	**16.4**	14.4	13.9
	$ **615.5**	$ 607.1	1.4
Network access lines	**698,585**	697,828	0.1
Long distance minutes (000s)	**1,199,015**	1,061,457	13.0

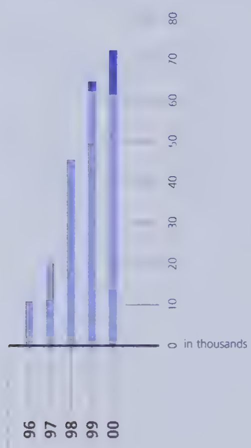
Local service revenues increased by $19.5 million or 5.7% over 1999. Residential and business rate increases approved by the CRTC during 2000 and the continuing growth in popularity of enhanced calling features were the primary reasons for this increase. During 2000, the Company was granted an interim residential rate increase of $3 per month, and various business rate increases to partially cover its increased income tax expense incurred in 2000. A final decision on these rate increases, as well as an additional residential rate increase of $3 per month requested by the Company, is expected in March 2001. In addition, the Company was granted a rate increase to recover certain costs of implementing Local Number Portability. Together, these rate increases contributed additional revenues of $12.5 million in 2000. Double-digit growth in enhanced services revenue contributed the majority of the remaining increase in local revenues.

Long distance revenue decreased by $13.8 million or 6.2% compared with 1999. Lower flat-rate retail pricing plans, introduced early in the year, led to a significant increase in market share and minute volumes, which more than offset the impact from repricing these services. MTS continues to hold the dominant share of the long distance market at 80%, which is up significantly from 76% a year earlier. The decreased revenues were caused by lower prices for transiting and terminating long distance calls. These price reductions have been partially offset by reductions in the costs MTS incurred for transporting its long distance traffic. As a consequence, MTS continues to deliver highly profitable results from the long distance line of business.

High-growth operations

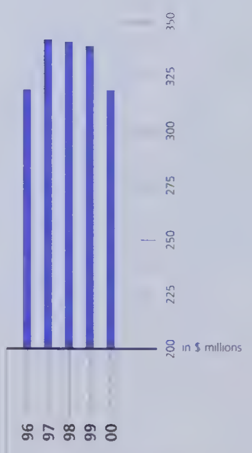
(in millions)	2000	1999	% change
Wireless	$ **108.1**	$ 101.0	7.0
Bell Intrigna services	**58.1**	2.2	n/m
Internet	**20.8**	14.6	42.5
Miscellaneous	**19.7**	17.0	15.9
	$ **206.7**	$ 134.8	53.3
Cellular customers	**169,140**	143,693	17.7
Internet retail customers	**73,381**	64,901	13.1
Cellular revenue per customer per month	$ **55.18**	$ 58.72	(6.0)

Wireless revenues increased by $7.1 million or 7.0% over 1999. Wireless revenues for 1999 have been adjusted to reflect the reclassification of roaming expense, which previously was netted against revenues and is now recorded as part of operations expense. This growth in revenues is primarily due to a 17.7% increase in customers during the year, which was partially offset by a 6.0% decrease in average revenue per customer per month. New pricing plans and the increased popularity of prepaid cellular, which at December 31, 2000 represented approximately 10% of MTS's wireless customers, have led to a lower average revenue per customer per month. The



Internet Customers

High-speed
Dial-up



Baseline Operations Expenses

Company acted decisively during the year to provide the best customer value in the market, and continues to hold the dominant share of the market at an estimated 68%. MTS's leading market position in the wireless segment places the Company in an excellent position to leverage the opportunities associated with new value-added products such as the Web browser service that MTS launched in November 2000.

Bell Intrigna's revenues increased to $58.1 million in 2000. This is a phenomenal accomplishment considering that the company only recorded its first sale in Alberta and British Columbia in the fourth quarter of 1999. In 2000, Bell Intrigna built on these early successes by making significant gains in the key urban markets of Calgary, Edmonton and Vancouver. It finished the year with more than 900 customers, representing 5% of the addressable market. As expected, Bell Intrigna's strategic relationship with Bell Nexxia has provided a significant early revenue stream. The balance of Bell Intrigna's revenues were attributable to its success in winning local and regional customers in its home markets.

Internet revenues increased by $6.2 million or 42.5% over 1999, primarily due to a 13.1% increase in customers. The trend toward higher bandwidth requirements continued in 2000, with the number of high-speed Internet customers increasing fourfold to number more than 11,000 by December 31, 2000. In September, MTS launched its next generation network ("NGN") initiative that will extend high-speed Internet access to 85% of all Manitoba business and residential customers by the end of 2003. MTS aggressively moved forward with this undertaking through the balance of 2000 and by early 2001, the Company had expanded high-speed coverage within Winnipeg as well as extended the service to include 11 second-tier communities in Manitoba. The three-year NGN project will position the Company to take advantage of increasing demand for broadband-enabled services.

Miscellaneous revenues, which include telecommunications-related services, home security and e-business, increased $2.7 million or 15.9% over 1999. Growth in e-business revenues was strongest, with revenues nearly tripling to $1.5 million for the year.

Operating expenses

(in millions)		2000		1999	% change
Baseline operations expense	$	**319.0**	$	340.9	(6.4)
Bell Intrigna operations		**79.1**		13.8	473.2
Contribution and long distance costs		**63.2**		62.4	1.3
Depreciation and amortization		**195.6**		190.1	2.9
Operating expenses	$	**656.9**	$	607.2	8.2
Baseline operations cost/NAL	$	**542**	$	582	(6.9)

Operating expenses increased by $49.7 million or 8.2% to fund growth, most notably at Bell Intrigna. Exceptional results were achieved in the baseline business, where operations expenses decreased by $21.9 million or 6.4%. These results reflect MTS's continuing efforts to reduce costs in its traditional operations and to redirect the savings to fund higher-growth opportunities. These cost reductions were achieved through re-engineering initiatives, workforce reductions, contract renegotiations, leveraging the alliance with Bell Canada, integrating the wireline, wireless and Internet operations, and the implementation of the new accounting rules of the Canadian Institute of Chartered Accountants relating to pension expense which became effective January 1, 2000.

Bell Intrigna's operations expenses have increased consistently with expectations given the significant increases in its business activity. In 2000, a significant portion of Bell Intrigna's services were being provided on a lower-margined re-sale basis. As Bell Intrigna moves more of its services onto its own network through 2001 and beyond, costs are expected to decline as a percentage of revenues. Bell Intrigna is expected to be EBITDA positive by January 2002.

Contribution and long distance costs increased marginally by $0.8 million or 1.3% compared with 1999. This increase is due to contribution and long distance costs of $3.7 million that were incurred by Bell Intrigna in 2000. Partially offsetting Bell Intrigna's increased costs have been lower costs incurred by MTS for transiting and terminating long distance traffic. Depreciation and amortization expenses increased by $5.5 million or 2.9%, primarily due to the capital build by Bell Intrigna in Alberta and British Columbia.

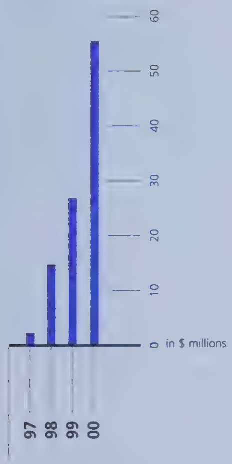
Debt charges

	2000	1999	% change
Debt charges *(in millions)*	$ **25.6**	$ 29.9	(14.4)
Average weighted cost of debt at year-end	**7.5%**	7.5%	
Debt/total capital ratio	**29.7%**	31.3%	

Debt charges decreased by $4.3 million or 14.4% due to reductions in the average level of debt outstanding for the year, and the reduction of the provincial service charge following the elimination of the long-term debt owed to the Province of Manitoba (the "Province") in April 2000.

Income tax expense

(in millions)	2000	1999	% change
Income tax expense	$ **56.1**	$ 27.0	107.8



Income Tax Expense

Income tax expense increased by $29.1 million or 107.8% over 1999. MTS began its transition to full taxation in 1997 when it became a taxable entity and created a tax shield resulting from certain contributions to its pension plan. As this tax shield has drawn down and various corporate entities within MTS have become taxable, income tax expense has ramped-up. This trend towards increasing taxes continued into 2000, as the Company's effective tax rate increased from 23.1% to 37.3%. Effective January 1, 2000, the Company adopted the liability method of accounting for income taxes in accordance with the recommendations of section 3465 of the Canadian Institute of Chartered Accountants' Handbook. This change in accounting policy resulted in the recognition of the value of the tax shield as an asset at January 1, 2000, and the recognition of an expense in 2000 as the value of the tax shield asset was drawn down. As at December 31, 2000, the Company had fully utilized the tax shield created in 1997, and, as a result, will incur income taxes at the full statutory rate in 2001 and future years.

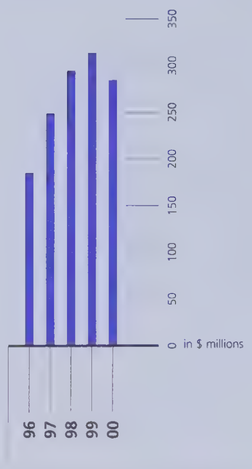
MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations

(in millions)	2000	1999	% change
Cash flows from operating activities	$ **287.3**	$ 315.8	(9.0)
Dividends	$ **49.1**	$ 48.0	2.3

Cash flow from operations decreased by $28.5 million or 9.0% from 1999. Cash was used to meet additional working capital requirements at Bell Intrigna arising from its increased volume of business. This decrease in cash was partially offset by an increase in net income and depreciation and amortization expense, which together provided an additional $12.1 million cash from operations in 2000. The dividend rate on MTS shares was increased from $0.17 to $0.19 per share in the fourth quarter of 1999. This resulted in an increase in cash used for dividends in 2000, which was partially offset by a decrease in the number of shares outstanding.

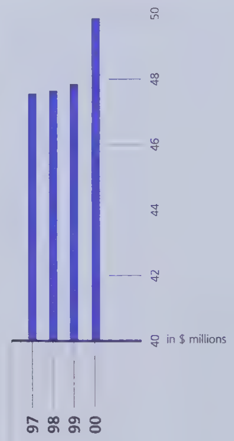


Cash Flow from Operating Activities

Investing activities

(in millions)	2000	1999	% change
Cash flows used in investing activities	$ **276.1**	$ 175.7	57.1

Cash flows used for investing activities increased by $100.4 million or 57.1% over 1999, due to increased capital expenditures. MTS increased its capital expenditures at Bell Intrigna from $40.4 million in 1999 to $116.9 million in 2000 to aggressively expand and build out its network. In addition, capital expenditures in the baseline business increased by $24.4 million to $153.4 million in 2000, partly due to labour disruptions in 1999 which restricted some of the planned capital spending. MTS also deployed capital in 2000 to expand high-speed Internet services and to begin executing on its NGN initiative that was launched at the end of September. Capital spending in the baseline business and at Bell Intrigna was completed according to plan for 2000.

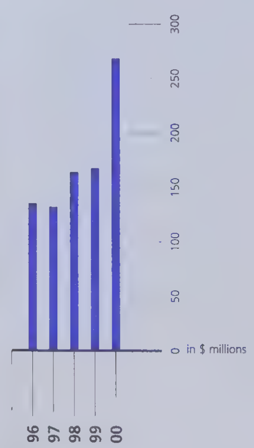


Dividends

Financing activities

(in millions)	2000	1999	% change
Cash flows used in financing activities	$ **0.7**	$ 60.2	(98.8)

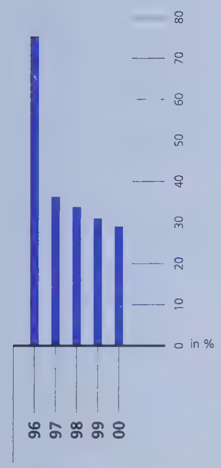
Cash flows used for financing activities decreased by $59.5 million or 98.8% from 1999 due to a decrease in the repayment of long-term debt and in the purchase of outstanding common shares for cancellation. This was partially offset by a decrease in cash received from the issuance of share capital. During 2000, MTS eliminated its outstanding debt obligation to the Province when the Province's debt position in Advances UFA 12 and UFA 27 was acquired by a third party. Upon the elimination of all debt obligations to the Province, the Special Share held by the Province was redeemed for $1. This resulted in the repeal of certain provisions of *The Manitoba Telephone System Reorganization and Consequential Amendments Act* (the "Reorganization Act"). The Reorganization Act provided that upon the redemption of the Special Share, MTS must file Articles of Continuance under *The Corporations Act* (Manitoba) containing the same restrictions on the beneficial ownership of MTS's voting shares as specified in certain provisions of the Reorganization Act. A Certificate of Continuance continuing MTS as a corporation under *The Corporations Act* (Manitoba) was issued on April 5, 2000. At the Annual and Special Meeting of shareholders of MTS held on June 23, 2000, shareholders passed a special resolution amending MTS's Articles of Continuance to increase the limit on the ownership of voting shares, by way of security only, from 10% to 20%.



Capital Expenditures

During 2000, the Company issued 22,400 common shares (1999 – 32,000) for cash consideration of $0.3 million (1999 – $0.5 million) pursuant to the exercise of stock options. In addition, 59,831 common shares of Bell Intrigna (1999 – 6,167) were issued to Bell Intrigna's non-controlling shareholder, Bell Canada, in exchange for cash consideration of $59.8 million (1999 – $6.2 million). In 1999, the Company issued 7,779,556 Class A preference shares and 6,223,644 common shares to Bell Canada for net cash consideration of $334.5 million.

In 2000, the Company purchased 2,447,800 common shares for cancellation for cash consideration of $59.5 million under the terms of its normal course issuer bids (1999 – 3,054,500 common shares for $55.8 million under a normal course issuer bid, and 14,003,200 common shares for $308.8 million under a substantial issuer bid).



Long-Term Debt to Total Invested Capital

Credit ratings

	2000	1999
DBRS-Commercial paper	**R-1 (low)**	R-1 (low)
DBRS-Senior debentures	**A (low)**	A (low)
Standard & Poor's – Commercial paper	**A-1**	A-1
Standard & Poor's – Senior debentures	**A**	A

In October 2000, Standard & Poor's acquired the Canadian Bond Rating Service, which had already provided credit ratings for MTS in 2000 and 1999.

MTS maintained strong credit ratings in 2000. In June 2000, the Dominion Bond Rating Service confirmed the Company's credit ratings for commercial paper and senior debentures with a stable trend, citing a strong balance sheet, an excellent franchise area, good profitability and strong cash flow. In February 2000, the Canadian Bond Rating Service ("CBRS") reaffirmed the Company's credit ratings for commercial paper and senior debentures with a stable outlook, citing a strong market position across all product lines, a low cost structure, good growth potential in wireless, Internet and Bell Intrigna, and a strong balance sheet. Standard & Poor's acquired CBRS in October 2000, and announced that they had combined operations in Canada. A process is under way to harmonize all ratings for the telecommunications industry assigned by CBRS with the Standard & Poor's ratings framework.

Credit facilities

In 1999, MTS established a $350 million medium term note program under a two-year shelf prospectus that expires May 31, 2001. As at December 31, 2000, $85.2 million of medium term notes had been arranged under this program, leaving a remaining facility of $264.8 million. In addition, MTS has arranged a credit facility of $25 million with a Canadian chartered bank, and has implemented a commercial paper program authorized to a maximum $100 million. The Company had $114 million in cash reserves at the end of 2000, and no amounts outstanding against its credit facility or commercial paper program. These credit arrangements, combined with cash reserves and strong operating cash flows, provide access to sufficient capital to meet the Company's working capital and financing needs.

OUTLOOK

MTS anticipates continued strong financial performance in 2001 as it executes on its strategies of investing in business adjacencies, while focusing on its core business to continue to lead the market. MTS has made great strides and achieved much success advancing its growth strategies to become Western Canada's premier regional telecommunications company. The outlook is for this trend to continue and accelerate.

MANAGEMENT'S DISCUSSION AND ANALYSIS

A key factor in this positive outlook is the Company's position as the pre-eminent full-service telecommunications provider in Manitoba, where the Company continues to hold leadership status in each of its chosen markets. As the market leader, MTS is well-positioned to achieve continuing profitability in its traditional operations, while, at the same time, taking advantage of the higher-growth opportunities in the baseline business.

Wireless services continue to be a major opportunity for growth in the baseline business. In 2000, MTS's wireless customer base increased by 17.7%, and revenue growth was solid at 7% over 1999. These positive trends are expected to continue in 2001 and beyond. MTS is investing in the wireless business to capitalize on the continuing growth in this market as well as the emerging demand for new high-value wireless products and services. In January 2001, the Company announced plans to invest $50 million over the next two years to expand the Company's digital wireless service coverage. Also in January, MTS acquired, through Industry Canada's spectrum auction, an additional 10 MHz of spectrum in Manitoba for $1.2 million. This additional spectrum will allow MTS to capitalize on its continuing growth in the wireless market, as well as the emerging demand for new high-value products and services.

To this end, MTS was the first wireless service provider in Manitoba to launch its Mobile Browser™ in November 2000. The Company anticipates launching additional wireless data products in the future that will expand its suite of products for the business market. MTS also took action in 2000 to increase its customer service capabilities and enhance margins through the amalgamation of the Company's wireline and wireless businesses, which will contribute to profitable growth going forward.

Internet revenues are expected to exhibit strong growth in the future and will provide another major opportunity for the baseline business. MTS was very successful in this market segment in 2000, with revenues increasing by 42.5% and the Internet retail customer base growing to more than 73,000 customers by year-end. As the trend for higher bandwidth requirements continues to gain momentum, MTS aggressively advanced its NGN rollout through the fourth quarter. Consumer high-speed Internet customers increased fourfold in 2000 to number more than 11,000 at year-end, and by the end of 2001, this customer base is expected to grow to 36,000.

A third major growth opportunity in the baseline business is e-business, an area MTS has been active in since 1997. MTS has continued to evolve this business, and in October 2000 launched Qunara, its e-business division tasked with capitalizing on its skill set and niche markets within the vast and growing opportunities available in this market. Qunara is an end-to-end e-business solutions provider delivering e-commerce, e-business and Internet Data Centre services to the business market in Canada and the United States. Revenues from Qunara's operations are expected to reach $100 million by 2005 through a combination of organic and acquisition growth. Late in 2000, MTS signed a binding letter of intent to acquire a 100% ownership interest in EXOCOM for $20 million with a further $6.25 million contingent on meeting certain performance targets in 2001. This transaction closed on January 30, 2001. With the addition of EXOCOM's well-established reputation, customer base, and complementary resource capabilities, Qunara has quickly expanded its scale and scope. Combined revenue expectations for Qunara and EXOCOM are $24 million for 2001.

In its traditional operations in Manitoba, which include local, long distance and directory services, the Company is focused on leading the market and improving margins. MTS has had considerable success in managing these goals, with an estimated 80% of the long distance market, 99% of the local market, and a reputation as the lowest cost telecommunications provider in the country. MTS expects total revenues from its traditional operations to increase in 2001. Additional revenues from local service rate increases, which are currently under consideration by the CRTC to cover a portion

of the Company's income taxes, together with growing revenue from data and enhanced local services, are expected to offset a decrease in market share for local services and declining prices for long distance services.

Overall operating costs in the baseline business will rise slightly in 2001, as costs to fund the NGN rollout and other growth areas increase. These increases are expected to be partially offset by continuing strong cost management efforts in the Company's traditional operations, consistent with the Company's strategy of prudent cost management in the traditional businesses, to provide funding for the expansion of higher-growth business opportunities.

2001 will complete the Company's transition to full taxation as the effective tax rate increases from approximately 37% in 2000 to the full statutory rate of approximately 45% in 2001. MTS has successfully employed a balanced strategy to address this transition, including share buybacks, investments for growth, aggressive productivity gains, debt reductions and rate increases. The remarkable success of this strategy is demonstrated by the double-digit compound annual growth rate in baseline EPS during the same period that the Company's tax rate increased from 3% to 45%. MTS has applied to the CRTC for a $3 per month local service rate increase as the final step in its transition. A decision is expected in March 2001.

The most significant development in MTS's growth strategy continues to be Bell Intrigna. The company delivered tremendous performance in 2000 by exceeding expectations for virtually all of its key operational and financial goals. The Company expects this momentum to continue to build in 2001, as Bell Intrigna's market presence, strengthened by significant customer wins like the Government of Alberta, expands through a value proposition based on strong customer service, price competitiveness and a growing portfolio of next generation services. The company is anticipating revenues of $220 million in 2001, with improved profitability as an increasing portion of its services are migrated onto its own network. Bell Intrigna is expected to be EBITDA positive by January 2002 and net income positive by July 2002.

MTS's successful expansion into Alberta and British Columbia is underpinned by its strong relationship with Bell Canada. Building on the success in the West, MTS is working together with Bell Mobility to introduce wireless services in Alberta and British Columbia. MTS has the opportunity to be a 20% participant in a joint venture with Bell Mobility that would offer wireless services in these two provinces. In support of this initiative, 30 MHz of spectrum in Alberta and British Columbia were acquired in the Industry Canada auction held in January 2001.

In the baseline business, revenues are targeted to grow by 8% to 10% in 2001, and EBITDA is expected to increase by 12% to 14%. Baseline EPS growth, excluding NGN, is forecast to increase in the 8% to 10% range. MTS anticipates that even with the aggressive deployment of NGN and the associated increase in depreciation expense, baseline EPS will be maintained at levels consistent with those achieved in 2000. Consolidated revenues are expected to grow in the range of 25% to 30%, with double-digit improvements in consolidated EBITDA of approximately 13% to 15%.

Liquidity and capital resources

The Company's planned capital expenditures for 2001 are $385 million, and are primarily targeted at revenue growth opportunities. Of this amount, $152 million is planned for the NGN build-out and $138 million is targeted for other baseline operations, including a significant portion of the planned $50 million digital wireless expansion as well as additional data and Internet investments. An additional $95 million is expected to be expended for the continued build-out of the Bell Intrigna network, with two thirds of this amount being funded by MTS and one third by Bell Intrigna's non-controlling shareholder. Planned capital expenditures do not include any amounts required to fund the delivery of wireless services in Alberta and British Columbia.

The Company anticipates that internally generated cash, together with cash reserves, will be sufficient to fund operating and capital expenditures as well as dividends. Although the existing normal course issuer bid allows the Company to repurchase up to 5 million shares for cancellation in 2001, the Company does not anticipate any purchases at this time. In the event the CRTC decision on rate increases to recover a portion of the Company's income tax expense increase is less than expected, share buybacks will be considered as a means to maintain the expected growth in EPS.

The Company has access to $264.8 million under the existing medium term note program, which expires in May 2001. MTS intends to establish a new medium term note program of a similar amount. With a debt to total capital ratio of 30%, the Company has more than adequate capacity to borrow funds in the event investment opportunities, such as those required to deliver wireless services in Alberta and British Columbia, require funding beyond that available from internally generated funds and cash reserves.

REGULATORY ENVIRONMENT

The telecommunications industry in which the Company's major operating subsidiary, MTS Communications Inc. ("MTS Communications"), operates is governed by the Canadian Radio-television and Telecommunications Commission ("CRTC"), which regulates telecommunications common carriers under the authority of the *Telecommunications Act* (Canada). The CRTC has authority over certain aspects of the operations of telecommunications common carriers, including rates, service packages, quality of service, costing and accounting practices. The CRTC, however, has the discretion to forbear from regulating certain products and services where it considers the market to be sufficiently competitive to protect the interests of consumers.

The CRTC regulates MTS Communications as a telecommunications carrier, and previously exercised regulatory authority over MTS Mobility Inc. until its amalgamation with MTS Communications effective January 1, 2000 as part of the integration of the wireline and wireless businesses. The CRTC does not require MTS Communications to file tariffs for its wireless services, but retains the authority to regulate the terms and conditions of these services. As Bell Intrigna operates as a competitive local exchange carrier in Alberta and British Columbia, only its arrangements with other carriers are regulated by the CRTC. MTS Advanced is not regulated by the CRTC.

For regulatory purposes, MTS Communications is split into two segments: utility and competitive. The utility segment includes most local telephone services. Competitive segment services include long distance, wireless, Internet, data and terminal service offerings. MTS Communications is required to file tariffs for its local services and to demonstrate that its services cover their costs and underlying charges. Long distance, wireless, Internet access, terminal services and most data services provided by MTS Communications are forborne, meaning that the rates for these services do not require CRTC approval. MTS Communications, therefore, operates on an equal footing with its competitors in these forborne competitive segment services. The CRTC maintains the authority to impose general conditions on the provision of long distance, wireless and Internet access services to prevent unjust discrimination and the conferring of undue preference in relation to these services.

MTS Communications' utility segment has been regulated under a price cap regulatory mechanism since January 1998. Under the price cap regime, utility services are grouped into a number of service baskets. Initial prices for each basket are capped, after which annual price changes are adjusted by an inflation factor and a pre-determined productivity offset of 4.5%. Price cap regulation mandates price reductions only for services that are provided at prices that are above their costs, such as business rates in Winnipeg. Prices for services that are currently below cost, such as certain residential services, are permitted to rise. Price cap regulation applies only to local

utility services, and is intended as an interim form of regulation as the market in local telephone services becomes more competitive. The CRTC will conduct a review of the price cap regime during 2001 to determine the appropriate means to regulate the industry in the future.

Under an arrangement with the CRTC, MTS Communications was permitted to accumulate revenue in 1999 and 2000 in a regulatory deferral account for income tax purposes. This deferral account was funded using revenues that would otherwise have been reduced through the lowering of business service rates under the price cap regime. The tax shield applicable to MTS Communications' utility segment was fully depleted in July 2000. MTS Communications was granted an interim rate increase of $3 per month on residential services effective August 2000, and has applied for a further increase of $3 per month in 2001 to partially offset its income tax expense. The CRTC is expected to make its final ruling on these rate increases in March 2001. During 2000, the CRTC also issued a decision that would allow MTS to recover, over the next two years, up to $15.8 million of the $16.7 million incurred by the Company to implement local number portability.

Since January 1998, the market in local telephone services has been open to competition. In a decision issued in May 1997, the CRTC required the telephone companies to unbundle certain essential elements of their local networks that must be made available to competitors at tariffed rates. This permits new entrants to provide competitive local service without completely replicating the networks of the existing telephone companies. Competitors also are permitted to enter the local market by reselling the local services provided by MTS Communications. Local number portability has been available in Winnipeg since December 31, 1998 to facilitate competition in local telephone services.

MTS Communications, as an incumbent telephone company, retains an obligation to provide service throughout its operating territory. Regulatory proceedings are currently underway to determine the extent of subsidies required to support service in areas where the revenues from local service cannot be expected to cover the cost of providing service. The size of the subsidy needed to support below-cost service will be determined as part of the proceeding to review the price cap regime in 2001. In a decision issued on November 30, 2000, the CRTC determined that, beginning in the second quarter of 2001, local service would be subsidized through a national subsidy fund to which all telecommunications service providers must contribute a percentage of their telecommunications services revenues. The CRTC also determined that the subsidies to high-cost serving areas would be determined based on the incremental, forward-looking costs of providing service in these areas. The mechanics of this new national subsidy fund will be developed during 2001.

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Manitoba Telecom Services Inc. and the information in the annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and necessarily include some amounts that are based on management's best estimates and judgements. Financial information presented elsewhere in the annual report is consistent with that in the consolidated financial statements.

In fulfilling its responsibilities, management has developed and maintains a system of internal controls including written policies and procedures, segregation of duties and responsibilities and an internal audit program. This system is designed to provide reasonable assurance that assets are adequately accounted for and safeguarded, transactions are properly authorized and recorded, and the financial records are reliable for preparing the consolidated financial statements. The Company has also instituted policies and guidelines, which require employees to follow high ethical business standards.

The Board of Directors carries out its responsibility for the consolidated financial statements in the annual report principally through its Audit Committee, which is composed entirely of outside directors. The Audit Committee meets periodically with management and with the internal and external auditors to discuss the results of audit examinations with respect to the adequacy of internal controls and to review and discuss the consolidated financial statements. The Audit Committee recommends the consolidated financial statements to the Board for approval.

The consolidated financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants, who have full access to the Audit Committee, with and without the presence of management. Their report follows.

William C. Fraser
President & Chief Executive Officer

Cheryl Barker
Executive Vice-President Finance & Chief Financial Officer

AUDIT COMMITTEE REPORT

To the Shareholders
Manitoba Telecom Services Inc.

The Audit Committee, which is composed entirely of outside directors, oversees the financial reporting process on behalf of the Board of Directors. The Audit Committee has met independently with management and the external auditors to discuss the audited financial statements, including the quality of internal controls, accounting principles and significant judgements affecting these audited financial statements. The Audit Committee has also discussed among themselves the information disclosed by management and the external auditors without their presence. The Audit Committee has recommended the consolidated financial statements to the Board for approval.

Donald H. Penny, F.C.A., L.L.D.
Chairman of the Audit Committee

AUDITORS' REPORT

To the Shareholders
Manitoba Telecom Services Inc.

We have examined the consolidated balance sheets of Manitoba Telecom Services Inc. as at December 31, 2000 and 1999 and the consolidated statements of income, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Winnipeg, Manitoba
January 31, 2001

CONSOLIDATED STATEMENT OF INCOME

Years ended December 31 *(in thousands)*	2000	1999
Operating revenues		
Local services	$ 360,043	$ 340,514
Long distance services	208,199	221,976
Wireless services	108,110	101,031
Bell Intrigna communications services	58,140	2,242
Internet services	20,763	14,630
Directory services	30,887	30,200
Miscellaneous	36,123	31,326
	822,265	741,919
Operating expenses		
Operations	398,162	354,742
Contribution and long distance costs	63,162	62,356
Depreciation and amortization	195,599	190,107
	656,923	607,205
Operating income	165,342	134,714
Other income	10,711	12,326
Debt charges (Note 2)	25,589	29,947
Income before income taxes and non-controlling interest	150,464	117,093
Income taxes (Note 3)		
Current	23,025	15,138
Future	33,118	11,867
	56,143	27,005
Income before non-controlling interest	94,321	90,088
Non-controlling interest	6,225	3,843
Net income	$ 100,546	$ 93,931
Basic earnings per share	$ 1.55	$ 1.34

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years ended December 31 *(in thousands)*	2000	1999
Retained earnings, beginning of year		
As previously stated	$ 113,340	$ 310,585
Adjustment to reflect change in accounting for income taxes (Note 3)	62,530	–
Retained earnings restated, beginning of year	175,870	310,585
Net income	100,546	93,931
Dividends	(49,170)	(47,963)
Purchase of outstanding common shares (Note 8)	(41,878)	(243,213)
Retained earnings, end of year	$ 185,368	$ 113,340

CONSOLIDATED STATEMENT OF CASH FLOW

Years ended December 31 *(in thousands)*	2000	1999
Cash flows from operating activities		
Net income	$ 100,546	$ 93,931
Depreciation and amortization	195,599	190,107
Cash (used for) provided by changes in working capital	(9,342)	27,210
Non-controlling interest	(6,225)	(3,843)
Other, net	6,707	8,395
Cash flows from operating activities	287,285	315,800
Dividends	(49,170)	(47,963)
Cash flows from investing activities		
Capital expenditures, net	(270,253)	(169,359)
Purchase of investments	(5,274)	(6,437)
Other	(464)	144
Cash flows used in investing activities	(275,991)	(175,652)
Free cash flow	(37,876)	92,185
Cash flows from financing activities		
Issuance of share capital	343	334,948
Issuance of share capital by subsidiary to non-controlling interest	59,831	6,167
Purchase of outstanding common shares	(59,501)	(364,611)
Repayment of long-term debt	(84)	(30,727)
Decrease in premium on long-term debt	(1,318)	(6,039)
Cash flows used in financing activities	(729)	(60,262)
(Decrease) increase in cash and short-term investments	(38,605)	31,923
Cash and short-term investments, beginning of year	152,212	120,289
Cash and short-term investments, end of year	$ 113,607	$ 152,212

CONSOLIDATED BALANCE SHEET

December 31
(in thousands)

	2000	1999
ASSETS		
Current assets		
Cash and short-term investments	$ 113,607	$ 152,212
Accounts receivable	150,039	88,723
Prepaid expenses	15,501	13,056
Current portion of future income taxes (Note 3)	4,151	–
	283,298	253,991
Property, plant and equipment (Note 4)	1,110,645	1,022,615
Investments (Note 5)	21,142	17,591
Deferred charges (Note 6)	20,989	14,213
Future income taxes (Note 3)	20,738	–
Goodwill	11,356	12,984
	$ 1,468,168	$ 1,321,394
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 231,798	$ 176,662
Advance billings and payments	23,303	24,045
Current portion of long-term debt (Note 7)	–	25,321
	255,101	226,028
Long-term debt (Note 7)	329,668	305,749
Deferred employee benefits	35,148	45,224
Future income taxes (Note 3)	8,718	14,945
	628,635	591,946
Non-controlling interest	57,661	2,324
Shareholders' equity		
Share capital (Note 8)	596,504	613,784
Retained earnings	185,368	113,340
	781,872	727,124
	$ 1,468,168	$ 1,321,394

Approved on behalf of the Board

Chairman

Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2000 and 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Manitoba Telecom Services Inc. (the "Company") operates in the telecommunications industry. The Company's principal subsidiary, MTS Communications Inc., is regulated by the Canadian Radio-television and Telecommunications Commission ("CRTC") under the *Telecommunications Act* (Canada). Effective January 1, 1998, a price cap regulatory framework replaced the rate base/rate of return regulatory framework for the utility segment of MTS Communications Inc.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, MTS Communications Inc., MTS Advanced Inc., Manitoba Telecom Services International Inc., and AAA Alarm Systems Ltd., as well as its majority-owned subsidiary, Bell Intrigna Inc.

Property, plant and equipment

Property, plant and equipment is recorded at original cost, including materials, direct labour and certain overhead costs associated with construction activity and an allowance for the cost of funds during construction.

Depreciation is calculated on a straight-line basis over the estimated useful life of property, plant and equipment by applying rates that are based on a continuing program of engineering studies. The composite depreciation rate for the year ended December 31, 2000 was 7.7% (1999 – 7.7%).

Deferred charges

Deferred charges includes cellular and PCS activation costs and home security customer installation costs that are amortized over the period of expected benefits, which is normally two years for cellular and PCS, and 10 years for home security customers. Deferred charges also include costs associated with the issuance of long-term debt, which are amortized over the term of the issue.

Goodwill

Goodwill represents the excess of the aggregate purchase price over the fair value of the identifiable net assets of subsidiaries at the dates of acquisition and is amortized on a straight-line basis over the estimated periods of benefit ranging from four to 20 years. The carrying value of goodwill is evaluated for potential permanent impairment on an ongoing basis. In order to determine whether permanent impairment exists, the Company's management considers the financial condition of each acquired business unit, as well as its expected pre-tax earnings, cash flows and market-related values. Any impairment in the value of goodwill is written off against earnings in the year the impairment is recognized. Total goodwill amortization charged to operations amounted to $1.7 million in 2000 (1999 – $1.1 million).

Translation of foreign currencies

Foreign currencies have been translated into Canadian dollars at rates of exchange on the following basis:

i. Monetary assets and liabilities at effective rates prevailing at the end of the year; and
ii. Revenues and expenses at rates prevailing at the respective transaction dates.

Financial instruments

The Company's financial assets and liabilities are initially recorded at the related transaction amount, which is normally the historical cost. When the carrying value of a financial asset exceeds its fair value on a basis that is other than temporary, the carrying value is reduced to its fair value.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the tax basis of an asset or liability and its carrying amount, and are measured using substantively enacted tax rates, that, at the balance sheet date, are expected to be in effect when the differences are expected to reverse.

Employee future benefits

Commencing January 1, 2000, the Company prospectively applied the new accounting recommendations for employee future benefits. The transitional asset and obligations resulting from the implementation of section 3461 of the Canadian Institute of Chartered Accountants' Handbook are amortized on a straight-line basis over the expected average remaining service life of active employees. Pension and other employee future benefit costs are determined using the projected benefit method prorated on years of service and based on best estimate assumptions. The discount rate used to calculate the accrued benefit obligation is determined by reference to market

interest rates of high-quality corporate bonds at measurement date. Market-related values of pension fund assets are calculated using a four-year moving average of year-end market values. The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the market-related value of plan assets is amortized over the expected average remaining service life of active employees.

2. DEBT CHARGES

(in thousands)	2000	1999
Interest on long-term debt	**$ 24,845**	$ 27,124
Amortization of long-term debt costs	**98**	98
Other interest expense and debt charges	**646**	2,725
	$ 25,589	$ 29,947

3. INCOME TAXES

Effective January 1, 2000, the Company adopted the liability method of accounting for income taxes in accordance with the recommendations included in section 3465 of the Canadian Institute of Chartered Accountants' Handbook. This change has been applied retroactively without restatement of the 1999 financial statements. As a result, on January 1, 2000, retained earnings increased by $62.5 million, the net future income tax asset increased by $64.3 million and non-controlling interest increased by $1.8 million.

The balances of future income taxes as at December 31, 2000, represent the future benefit of unused tax losses, and temporary differences between the tax and accounting bases of assets and liabilities to the extent that they are likely to be realized. The temporary differences are mainly due to differences between the net book value and undepreciated capital cost of property, plant and equipment, and the net book value and tax values of goodwill.

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	2000	1999
Combined basic federal and provincial statutory income tax rate	**46.1%**	46.1%
Realization of benefit of losses and additional tax deductions	**(14.0)**	(36.7)
Large corporations tax	**1.6**	2.5
Impact of future federal tax rate reductions	**3.2**	–
Other items	**0.4**	11.2
	37.3%	23.1%

4. PROPERTY, PLANT AND EQUIPMENT

(in thousands)	2000		1999	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Network equipment and outside plant	**$ 2,057,007**	**$ 1,232,839**	$ 1,904,011	$ 1,128,170
General equipment and other	**355,943**	**220,003**	321,677	196,316
Buildings	**132,811**	**79,431**	142,941	85,474
Plant under construction	**83,464**	**–**	51,313	–
Materials and supplies	**7,755**	**–**	6,108	–
Land	**5,938**	**–**	6,525	–
	$ 2,642,918	**$ 1,532,273**	$ 2,432,575	$ 1,409,960
Net book value	**$ 1,110,645**		$ 1,022,615	

5. INVESTMENTS

(in thousands)	2000	1999
Long-term investments, at cost	**$ 10,000**	$ 10,000
Long-term disability fund, at cost	**4,954**	4,490
Investment, at equity (1999 – at cost)	**6,188**	3,101
	$ 21,142	$ 17,591

The market value of the long-term disability fund at December 31, 2000 totalled $5.9 million (1999 – $5.3 million).

The Company uses the equity method to account for its investment in a company subject to significant influence. The aggregate differences between the purchase price and the underlying net book value of this investment, at the dates of investment, in the amount of $5.9 million is being amortized on a straight-line basis over the estimated periods of benefit of 10 years.

6. DEFERRED CHARGES

(in thousands)		2000		1999
Deferred cellular and PCS activation costs	$	**15,078**	$	9,654
Deferred alarm installation costs		**3,644**		2,030
Other		**2,267**		2,529
	$	**20,989**	$	14,213

Amortization expense amounted to $11.7 million for the year ended December 31, 2000 (1999 – $11.1 million).

7. LONG-TERM DEBT

(in thousands)		2000		1999
Notes payable				
Medium Term Note, 9.00%, due January 27, 2002	$	**13,357**	$	–
Medium Term Note, 7.75%, due March 1, 2005		**9,691**		9,691
Medium Term Note, 8.75%, due May 15, 2005		**34,891**		34,891
Medium Term Note, 7.75%, due September 30, 2005		**15,501**		15,501
Medium Term Note, 8.00%, due April 17, 2006		**48,106**		48,106
Medium Term Note, 9.00%, due May 2, 2007		**14,663**		14,663
Medium Term Note, 6.50%, due July 2, 2007		**80,000**		80,000
Medium Term Note, 8.50%, due September 29, 2007		**11,880**		11,880
Medium Term Note, 9.125%, due April 3, 2008		**27,699**		27,699
Medium Term Note, 5.90%, due June 2, 2008		**62,000**		62,000
Medium Term Note, 8.625%, due September 8, 2010		**11,880**		–
Province of Manitoba Advances				
Advance UFA12, 9.00%, due January 27, 2002		**–**		13,441
Advance UFA27, 8.625%, due September 8, 2010		**–**		11,880
		329,668		329,752
Premium on long-term debt		**–**		1,318
Less: Current portion of long-term debt		**–**		25,321
	$	**329,668**	$	305,749

8. SHARE CAPITAL

Authorized

Unlimited number of Preference Shares

Unlimited number of Common Shares

Preference Shares

The Preference Shares are of two classes, issuable in one or more series, for which the directors of the Company may fix the number of shares and determine the designation, rights, privileges, restrictions and conditions. A class of Preference Shares of a single series has been designated as Class A Preference Shares.

The attributes of the Class A Preference Shares are identical in all respects to those of the Common Shares except:

- The Class A Preference Shares are not entitled to receive notice of, or attend or vote at, meetings of shareholders on resolutions electing directors.
- The Class A Preference Shares are convertible, at any time, into Common Shares, on a one-for-one basis.
- Dividends on the Class A Preference Shares will be payable on the same dates as dividends are paid on the Common Shares of the Company, using the same record date for determining holders of Class A Preference Shares entitled to dividends as the record date for Common Share dividends, in an amount per Class A Preference Share equal to the corresponding amount of dividends per Common Share.

The Class A Preference Shares participate in the earnings of the Company on an equivalent basis with the Common Shares and are, therefore, included in the weighted average number of shares outstanding for the purposes of calculating basic earnings per share.

Common Shares

The holders of the Common Shares are entitled to one vote per Common Share on all matters to be voted on by the holders of Common Shares and are entitled to receive such dividends as may be declared by the Board of Directors of the Company.

Issued	**2000**			1999		
(in thousands, except number of shares)	Number		Value	Number		Value
Class A Preference Shares						
Opening balance	**7,779,556**	**$**	**185,868**	–	$	–
Issued, net of costs	**–**		**–**	7,779,556		185,868
	7,779,556	**$**	**185,868**	7,779,556	$	185,868
Common Shares						
Opening balance	**59,213,944**	**$**	**427,916**	70,016,000	$	400,234
Issued, net of costs	**–**		**–**	6,223,644		148,612
Purchased for cancellation	**(2,447,800)**		**(17,623)**	(17,057,700)		(121,398)
Issued pursuant to stock options	**22,400**		**343**	32,000		468
	56,788,544	**$**	**410,636**	59,213,944	$	427,916
Special Share	**–**		**–**	1		–
Total Share Capital		**$**	**596,504**		$	613,784

During the year, the Company purchased 2,447,800 Common Shares for cancellation for cash consideration of $59.5 million under the terms of its normal course issuer bids (1999 – 3,054,500 Common Shares for $55.8 million). The excess of the purchase price over the stated capital in the amount of $41.9 million was charged to retained earnings (1999 – $35.2 million).

During 1999, the Company purchased 14,003,200 Common Shares for cancellation for cash consideration of $308.8 million under the terms of its substantial issuer bid. The excess of the purchase price over the stated capital in the amount of $208.0 million was charged to retained earnings.

On April 5, 2000, when the Company repaid all indebtedness to the Province of Manitoba, the Special Share held by the Province was redeemed for $1.00. This resulted in the repeal of certain provisions of *The Manitoba Telephone System Reorganization and Consequential Amendments Act* which established the Special Share. As a result, the Special Share no longer forms part of the Company's share capital.

Employee share ownership plan

Effective January 1, 1998, the Company implemented an employee share ownership plan under which eligible employees can purchase Common Shares of the Company, through regular payroll deductions, by contributing between 1% and 6% of salary. For every $4 contributed by an employee, the Company contributes $1. The Company records its contributions as a component of operating expenses. During 2000, the Company contributed $0.8 million (1999 - $0.6 million) to this plan. All Common Shares purchased on behalf of employees under this plan during the year were purchased at fair market value.

Stock options

The Company has a stock option plan under which the Board may grant options to purchase Common Shares to key employees and directors at a price not less than the weighted average of the prices at which the Common Shares traded on all exchanges on which the Common Shares are listed on the five days immediately preceding the date of the grant of the option. The options are exercisable during a period not to exceed 10 years. The right to exercise the options accrues over a period of five years of continuous employment or service as a director at a rate of 20% per year effective on the anniversary of the date on which the options were granted. The Company has reserved a maximum of 3.5 million Common Shares to meet rights outstanding under the stock option plan.

	2000			1999		
	Number of Shares		Average Exercise Price	Number of Shares		Average Exercise Price
Outstanding, beginning of year	**890,550**	**$**	**16.40**	807,500	$	15.20
Granted	**226,000**		**25.18**	251,550		19.18
Exercised	**(22,400)**		**15.32**	(32,000)		14.63
Terminated	**–**		**–**	(136,500)		14.84
Outstanding, end of year	**1,094,150**	**$**	**18.23**	890,550	$	16.40
Exercisable	**410,910**	**$**	**15.60**	231,600	$	15.02

Year granted	Options Outstanding at Dec. 31, 2000	Exercisable		Average Exercise Price	Expiry Date
2000	226,000	–	$	25.18	2010
1999	251,550	50,310		19.18	2009
1998	120,000	48,000		18.06	2008
1997	496,600	312,600		14.64	2007

9. EMPLOYEE FUTURE BENEFITS

(in thousands)

The Company has a contributory defined benefit best average pension plan (the "Pension Plan"), which covers the employees of the Company, MTS Communications Inc., MTS Advanced Inc., and Manitoba Telecom Services International Inc. The Pension Plan provides pensions based on length of service and best average earnings. The Company's policy is to fund the Pension Plan as determined through periodic actuarial valuations. Contributions reflect actuarial assumptions regarding salary projections and future service benefits.

The Company also provides supplemental pension arrangements and other non-pension employee future benefits that are unfunded with the exception of the long-term disability plan for which the Company has dedicated assets set aside to fund benefits. These assets are recorded on the Company's financial statements.

The actuarial assumptions used in determining the Company's accrued benefit obligations for December 31, 2000 include a discount rate of 7.00%, expected long-term rate of return on plan assets of 7.25%, and a rate of compensation increase of 2.25%.

In 2000, the Company recognized a defined benefit pension plan credit of $4,656 which is comprised of a current service cost (net of employee contributions) of $11,924, interest on the accrued benefit obligation of $58,549, an expected return on plan assets of $64,255, and the amortization of the transitional asset of $10,874.

The aggregate accrued benefit obligation of the Company's defined benefit pension plans of $851,092 at December 31, 2000, is comprised of the accrued benefit obligation at January 1, 2000 of $816,499, current service cost of $11,924, interest on the accrued benefit obligation of $58,549, the actuarial loss on the obligation of $29,499, and benefit payments and transfers of $65,379. Included in the accrued benefit obligation at year-end is an accrued benefit obligation totalling $2,712 in respect of plans that are not funded.

The fair value of the Pension Plan assets at December 31, 2000 of $964,839 is comprised of the fair value of plan assets at January 1, 2000 of $961,293, employee contributions of $8,819, the actual return on plan assets of $60,106, and benefits paid during the year of $65,379. The excess of the Pension Plan assets over the accrued benefit obligation at December 31, 2000 is $113,747.

At December 31, 2000, the accrued pension benefit liability recognized in the financial statements is $8,107. The unamortized net actuarial loss and unamortized net transitional asset of the Company's defined benefit pension plans are $24,901 and $146,725, respectively.

In 2000, the Company recognized an expense relating to the Company's other benefit plans of $1,615, which is comprised of a current service cost of $1,242, interest on the accrued benefit obligation of $836, an expected return on plan assets of $386, and the amortization of the transitional asset of $77.

The aggregate accrued benefit obligation of the Company's other defined benefit plans of $12,606 at December 31, 2000 is comprised of the accrued benefit obligation at January 1, 2000 of $11,573, current service cost of $1,242, interest on the accrued benefit obligation of $836, the actuarial loss on the obligation of $209, and benefit payments of $1,254.

The fair value of the other defined benefit plans' assets recorded in the financial statements at December 31, 2000 of $5,869 is comprised of the fair value of plan assets at the beginning of the year of $5,337, employer contributions of $1,325, the actual return on plan assets of $461, and benefits paid during the year of $1,254. The excess of the accrued benefit obligation over plan assets at December 31, 2000 is $6,737.

At December 31, 2000, the accrued other defined benefit plans' liability recognized in the financial statements is $12,039, and the book value of the other benefit plans' assets is $4,954. The unamortized net actuarial loss and unamortized net transitional asset of the Company's other defined benefit plans are $700 and $1,048, respectively.

Prior to implementing the new accounting recommendation for employee future benefits, the Company accounted for the Pension Plan in accordance with the recommendations included in section 3460 of the Canadian Institute of Chartered Accountants' Handbook. As at December 31, 1999, the estimated actuarial value of the net assets available for benefits was $901,695 and the accrued pension benefits of the Pension Plan were $847,499.

10. FINANCIAL INSTRUMENTS

With the exception of long-term debt, the historical cost carrying amount of the Company's financial assets and liabilities, which are subject to normal trade terms, approximates the fair value. The Company's long-term debt with a cost of $329.7 million (1999 – $329.8 million) had a fair market value of $344.2 million (1999 – $342.2 million) as at December 31, 2000.

During the years ended December 31, 2000 and 1999, the Company has not utilized any derivative financial instruments.

11. ACQUISITIONS

During 1999, the Company acquired all of the operating assets of Imaginet Communications Group Inc. (February 1, 1999), International Security and Fire Inc. (January 29, 1999), and MBnet Networking Inc. (October 31, 1999) for total cash consideration of $3.4 million. These acquisitions were accounted for using the purchase method, and the excess of the total consideration paid over the net identifiable assets acquired was recorded as goodwill in the amount of $3.1 million. The operating results of these businesses were included in the Consolidated Statement of Income from the effective dates of acquisition.

12. SEGMENTED INFORMATION

The Company has one reportable operating segment: MTS Communications Inc., which provides a full range of local, long distance, data, wireless and Internet access services.

The Company's segments are strategic business units organized around different products and services. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (Note 1). The Company evaluates performance based on EBITDA (earnings before interest, taxes, depreciation and amortization). The Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at prices that approximate current market prices.

The following table is presented to provide information about segment EBITDA and segment assets:

	MTS Communications		All Other Segments		Totals	
(in $ millions)	**2000**	1999	**2000**	1999	**2000**	1999
Operating revenue – external	**721**	695	**101**	47	**822**	742
Operating revenue – internal	**11**	10	**23**	24	**34**	34
EBITDA	**372**	322	**(11)**	3	**361**	325
Depreciation and amortization	**187**	186	**9**	4	**196**	190
Assets	**1,345**	1,348	**407**	225	**1,752**	1,573
Capital expenditures, net	**147**	123	**123**	47	**270**	170

Revenues from segments below the quantitative thresholds are attributable to two operating segments of the Company. Those segments are MTS Advanced Inc., which is the Company's e-business and directory publishing subsidiary, and Bell Intrigna Inc., a competitive local exchange provider in Alberta and British Columbia.

Reconciliations of total EBITDA and assets are as follows:

EBITDA *(in millions)*	**2000**	1999
Total EBITDA	**$ 361**	$ 325
Depreciation and amortization	**(196)**	(190)
Other income	**11**	12
Debt charges	**(25)**	(30)
Income tax expense	**(56)**	(27)
Non-controlling interest	**6**	4
Consolidated net income	**$ 101**	$ 94

Assets *(in millions)*	**2000**	1999
Total assets for operating segments	**$ 1,752**	$ 1,573
Elimination of intersegment receivables	**(284)**	(252)
Consolidated total assets	**$ 1,468**	$ 1,321

13. COMMITMENTS AND CONTINGENCIES

Lease commitments

The Company rents buildings and construction and other equipment under operating leases. Future minimum lease commitments are as follows:

Year		*(in thousands)*
2001	$	12,731
2002		11,323
2003		11,501
2004		11,052
2005		11,044

Contractual obligations

The Company has entered into various long-term contractual commitments for services required in the normal course of operations. The aggregate annual contractual commitments for these services in each of the five following fiscal years are as follows:

Year		*(in thousands)*
2001	$	21,634
2002		14,780
2003		14,030
2004		10,080
2005		7,100

The Company's majority-owned subsidiary, Bell Intrigna Inc., has entered into purchase agreements with various telecommunications service providers for the purpose of reselling these services. These agreements range between one and five years, and the amount purchased under these agreements varies from month to month depending on the level of activity associated with each central office. Future contractual commitments for these services are approximately as follows:

Year		*(in thousands)*
2001	$	43,200
2002		10,800
2003		10,800
2004		10,800
2005		10,800

14. RELATED PARTY TRANSACTIONS

The Company has transactions with related parties in the normal course of operations at prevailing market prices and under normal trade terms. Related parties include Bell Canada, its parent, subsidiaries and significantly influenced affiliates (collectively, "Bell"). The Company is subject to significant influence by Bell due to Bell Canada's ownership of Class A Preference Shares and Common Shares and Bell's representation on the Board of Directors.

During the year, the Company made purchases from related parties totalling $46.9 million (1999 – $85.7 million). As at December 31, 2000, amounts due from related parties totalled $39.0 million (1999 – due to related parties $38.5 million). The Company also pays amounts to, and receives amounts from, Bell for transiting and terminating long distance minute traffic. These amounts are in the normal course of operations and are at prevailing market prices.

15. COMPARATIVE FIGURES

The prior period figures have been reclassified where necessary to conform to 2000 presentation. Bad debt expense and amounts paid to other carriers for cellular roaming, previously netted against miscellaneous revenues and wireless revenues, respectively, are now included as operations expenses.

16. SUBSEQUENT EVENT

Effective January 1, 2001, the Company acquired a 100% ownership interest in The EXOCOM Group Inc. for cash consideration of approximately $20 million, with additional cash consideration of approximately $6 million due upon achievement of certain financial targets.

FIVE YEARS IN REVIEW

(Not subject to auditors' report)

	2000	1999	1998	1997	1996
FINANCIAL INFORMATION					
(in $ thousands, except earnings per share and ratios)					
Operations					
Total operating revenues (1)	**822,265**	741,919	716,765	703,824	602,655
Total operating expenses (1)	**656,923**	607,205	587,755	588,842	497,912
Operating income	**165,342**	134,714	129,010	114,982	104,743
Other income	**10,711**	12,326	15,319	9,056	12,578
Debt charges	**25,589**	29,947	34,055	36,706	84,921
Income before extraordinary item	**100,546**	93,931	95,374	84,664	32,400
Extraordinary item	**–**	–	–	28,250	–
Dividends	**49,170**	47,963	47,603	47,600	N/A
Cash flow from operating activities	**287,285**	315,800	292,017	251,806	186,928
EBITDA	**360,941**	324,821	313,963	296,514	283,466
ROE (%)	**13.2**	12.5	13.9	12.7	13.0
Earnings per share ($)	**1.55**	1.34	1.36	0.81	N/A
Baseline Operations (2)					
Baseline operating revenues	**764,125**	739,677	716,765	703,824	602,655
Baseline net income	**112,995**	100,277	91,234	84,664	32,400
Baseline EBITDA	**385,753**	335,080	313,963	296,514	283,466
Baseline EBITDA margin (%)	**50.5**	45.3	43.8	42.1	47.0
Baseline ROE (%)	**14.7**	13.3	13.3	18.2	13.0
Baseline earnings per share ($)	**1.74**	1.43	1.30	1.21	N/A
Balance Sheet					
Property, plant and equipment	**2,642,918**	2,432,575	2,295,617	2,177,530	2,186,169
Accumulated depreciation	**1,532,273**	1,409,960	1,264,743	1,141,254	1,121,896
Investments and sinking funds	**21,142**	17,591	14,634	11,711	395,808
Long-term debt	**329,668**	305,749	287,836	305,306	673,685
Long-term debt to total invested capital (%)	**29.7**	31.3	34.1	36.8	75.7
Shareholders' equity	**781,872**	727,124	710,819	662,814	265,140
OPERATIONAL STATISTICS					
Long distance minutes *(in thousands)*	**1,199,015**	1,061,457	821,576	755,046	739,135
Network access lines	**698,585**	697,828	692,244	679,303	666,910
Cellular customers	**169,140**	143,693	123,013	104,826	86,256
Internet customers	**73,381**	64,901	46,131	20,500	10,100
Salaries and wages *(in $ thousands)*	**172,848**	173,070	173,794	176,837	174,468
Number of employees (3)	**3,125**	3,273	3,378	3,614	3,688
Construction program expenditures *(in $ thousands)*	**270,253**	169,359	166,416	134,630	135,199

(1) Figures for the years 1996, 1997, 1998 and 1999 have been restated to conform to 2000 presentation, as described in Note 15 to the Consolidated Financial Statements. Figures for 1998 and 1997 have been restated to conform to the presentation for contribution and long distance expenses first adopted in 1999. Amounts paid to carriers for transiting and terminating long distance minutes traffic and contribution payments to the CRTC's Central Fund, previously netted against operating revenues, are now included as expenses. The information required to restate 1996 figures for this change in the presentation of contribution and long distance expense is not available.

(2) Baseline results exclude the impact of Bell Intrigna in 2000 and 1999, the impact of the gain on the sale of shares in Alouette Telecommunications Inc. in 1998, and the extraordinary item in 1997.

(3) Including Bell Intrigna, total number of employees is 3,465 as at December 31, 2000 (1999 – 3,411).

INVESTOR INFORMATION

MANITOBA TELECOM SERVICES INC.

Subsidiary Companies
MTS Communications Inc.
MTS Advanced Inc.
The EXOCOM Group Inc.
AAA Alarm Systems Ltd.
Bell Intrigna Inc.

Corporate Headquarters
P.O. Box 6666
333 Main Street
Winnipeg, Manitoba R3C 3V6
http://www.mts.mb.ca

Investor Relations
(for investor information)
P.O. Box 6666
333 Main Street, Room MP20B
Winnipeg, Manitoba R3C 3V6
Telephone: (888) 544-5554

Corporate Communications
(for media and general inquiries)
P.O. Box 6666
333 Main Street, Room MP18C
Winnipeg, Manitoba R3C 3V6
Telephone: (800) 565-1936 or (204) 941-8244

SHARE TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
Suite 600
530 8th Avenue SW
Calgary, Alberta T2P 3S8
(888) 267-6555

MARKET TRADING INFORMATION

The Company's Common Shares are listed on The Toronto Stock Exchange. The trading symbol is MBT.

DIVIDENDS*

Record Date	Payment Date
March 15, 2001	April 12, 2001
June 15, 2001	July 13, 2001
September 15, 2001	October 15, 2001
December 15, 2001	January 15, 2002

** Subject to approval by Board of Directors*

ANNUAL AND SPECIAL MEETING

An Annual and Special Meeting of the shareholders of MTS will be held at The Winnipeg Art Gallery, Muriel Richardson Auditorium, Winnipeg, Manitoba, on April 24, 2001, at 11:00 a.m.

DUPLICATE ANNUAL REPORTS

If you have received duplicate copies of this annual report, please call MTS Corporate Communications at (800) 565-1936 or (204) 941-8246.

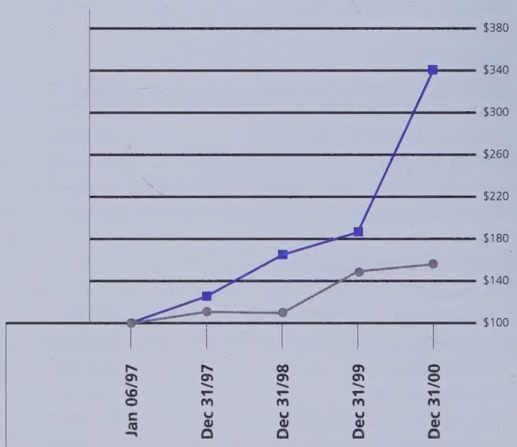
INVESTMENT INFORMATION ONLINE

MTS publishes investor information, including quarterly reports, dividend and special notices, on its Web site at http://www.mts.mb.ca.

PERFORMANCE GRAPH

The following graph compares the change over the last four years in the shareholder cumulative total return on the Common Shares of the Corporation with the cumulative total return of the TSE 300 Composite Index, assuming a $100 investment at the initial offering price of $13.00 and reinvestment of dividends.

Share Performance Graph



	Jan 06/97	Dec 31/97	Dec 31/98	Dec 31/99	Dec 31/00
MBT	100	129.04	166.31	185.53	340.12
TSE 300	100	114.95	112.96	148.79	159.76

THOMAS E. STEFANSON
Chairman, Manitoba Telecom Services Inc. and MTS Communications Inc.
Mr. Stefanson has been Chairman of MTS since 1989. He is a member of the Governance Committee.

JOHN F. FRASER, O.C.
Chairman, Air Canada
Mr. Fraser has been a Director of MTS since 1997. He is the Chairman of the Governance Committee and a member of the Audit Committee.

WILLIAM C. FRASER
President & Chief Executive Officer, Manitoba Telecom Services Inc. and MTS Communications Inc.
Mr. Fraser has been a Director of MTS since 1997.

JOCELYNE M. CÔTÉ-O'HARA
Principal, C²O & Company
Ms. Côté-O'Hara has been a Director of MTS since 1997. She is the Chairperson of the Board of MTS Advanced Inc., and a member of the Audit Committee and of the Human Resources and Compensation Committee.

RAYMOND L. McFEETORS
President & Chief Executive Officer, The Great-West Life Assurance Company and London Life Insurance Company
Mr. McFeetors has been a Director of MTS since 1997. He is a member of the Governance Committee.

C. ARNOLD L. MORBERG
President & Chief Executive Officer, Calm Air International Ltd.
Mr. Morberg has been a Director of MTS since 1997. He is a member of the Human Resources and Compensation Committee.

N. ASHLEIGH EVERETT
Chairman, Royal Canadian Properties Limited and President, Royal Canadian Securities Limited
Ms. Everett has been a Director of MTS since 1997. She is a member of the Audit Committee.

ARTHUR R. SAWCHUK
Chairman, Manulife Financial Corporation
Mr. Sawchuk has been a Director of MTS since 1997. He is a member of the Governance Committee and of the Human Resources and Compensation Committee.

D. SAMUEL SCHELLENBERG
General Manager, Pembina Valley Water Cooperative Inc.
Mr. Schellenberg has been a Director of MTS since 1989. He is the Chairman of the Human Resources and Compensation Committee and a member of the Audit Committee.

GEDAS A. SAKUS
Corporate Director
Mr. Sakus has been a Director of MTS since 1999. He is a member of the Human Resources and Compensation Committee.

JONATHAN P. KLUG
Chief Financial Officer, Bell Canada
Mr. Klug has been a Director of MTS since 2000. He is a member of the Audit Committee.

DONALD H. PENNY, F.C.A., L.L.D.
Chairman, Meyers Norris Penny
Mr. Penny has been a Director of MTS since 1997. He is the Chairman of the Audit Committee and a member of the Governance Committee.

RANDALL J. REYNOLDS
President & Chief Executive Officer, BCE Nexxia Inc.
Mr. Reynolds has been a Director of MTS since 2000. He is a member of the Governance Committee.

JOHN W. SHERIDAN
President, Bell Canada
Mr. Sheridan has been a Director of MTS since 2000. He is a member of the Human Resources and Compensation Committee.

WILLIAM C. FRASER
President & Chief Executive Officer, Manitoba Telecom Services Inc. and MTS Communications Inc.

CHERYL BARKER
Executive Vice-President Finance & Chief Financial Officer, Manitoba Telecom Services Inc. Vice-President Finance, MTS Communications Inc.

BONNIE J. STAPLES-LYON
Vice-President Corporate Communications, Manitoba Telecom Services Inc.

JEFFREY C. ROHNE
President & Chief Operating Officer, MTS Advanced Inc.

PETER J. FALK, Q.C.
Executive Vice-President Business Development; Corporate Secretary & General Counsel, Manitoba Telecom Services Inc.

DAVID C. ROURKE
Executive Vice-President Operations, MTS Communications Inc.

ROGER H. BALLANCE
Executive Vice-President Sales & Marketing, MTS Communications Inc.

BRYAN J. LUCE
Vice-President Human Resources, Manitoba Telecom Services Inc.

Officers of Manitoba Telecom Services Inc. and CEOs of its Principal Subsidiaries

THOMAS E. STEFANSON
Chairman, Manitoba Telecom Services Inc. and MTS Communications Inc. Winnipeg, Manitoba

WILLIAM C. FRASER, C.A.
President & Chief Executive Officer, Manitoba Telecom Services Inc. and MTS Communications Inc. Chairman, Bell Intrigna Inc. Winnipeg, Manitoba

CHERYL BARKER, C.A.
Executive Vice-President Finance & Chief Financial Officer, Manitoba Telecom Services Inc. Vice-President Finance, MTS Communications Inc. Winnipeg, Manitoba

PETER J. FALK, Q.C.
Executive Vice-President Business Development; General Counsel & Corporate Secretary, Manitoba Telecom Services Inc. Winnipeg, Manitoba

ROGER H. BALLANCE
Executive Vice-President Sales & Marketing, MTS Communications Inc. Winnipeg, Manitoba

JEFFREY C. ROHNE
President & Chief Operating Officer, MTS Advanced Inc. Winnipeg, Manitoba

DAVID C. ROURKE
Executive Vice-President Operations, MTS Communications Inc. Winnipeg, Manitoba

BRYAN J. LUCE
Vice-President Human Resources, Manitoba Telecom Services Inc. Winnipeg, Manitoba

WAYNE S. DEMKEY, C.A.
Corporate Controller, Manitoba Telecom Services Inc. Winnipeg, Manitoba

PATRICIA A. SOLMAN, C.A.
Treasurer, Manitoba Telecom Services Inc. Winnipeg, Manitoba

MURRAY L. KORTH
President & Chief Executive Officer, Bell Intrigna Inc. Calgary, Alberta

RONALD J. MAC DONELL
President & Chief Executive Officer, The EXOCOM Group Inc. Ottawa, Ontario

MTS

MANITOBA TELECOM SERVICES INC. P.O. Box 6666 333 Main St., 4th Floor Winnipeg, Manitoba, Canada R3C 3V6